TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

CORRECTED
HB 1386 – SB 1763

February 4, 2014

SUMMARY OF BILL: Requires the Department of Labor and Workforce Development (DLWD) to consider the employer's premium rate as assigned by the state from where the employer relocated and the employer's work history from such state, when determining the experience rating for new manufacturing employers in operation at least 10 years immediately preceding the date of becoming a liable employer in Tennessee. Requires such employers to provide DLWD an authenticated account history from operations information from the state where the employer relocated for the purpose of computing a Tennessee rate. Effective upon becoming law with a retroactive provision for certain employers that relocated to the state two years prior to enactment. Authorizes the Commissioner of DLWD to promulgate rules and regulations and to suspend the use of the proposed provision when the Unemployment Insurance Trust Fund (UITF) is equal to or less than $600,000,000.

ESTIMATED FISCAL IMPACT:

On January 30, 2014, a fiscal note was issued for this bill with the following estimated impact:

Decrease State Revenue –
$135,000/Unemployment Trust Fund/FY14-15
$270,000/Unemployment Trust Fund/FY15-16
$405,000/Unemployment Trust Fund/FY16-17 and Subsequent Years

Forgone State Revenue -
$135,000/Unemployment Trust Fund/FY14-15
$270,000/Unemployment Trust Fund/FY15-16
$405,000/Unemployment Trust Fund/FY16-17 and Subsequent Years

Increase State Expenditures –
$85,800/Unemployment Trust Fund/FY14-15
$58,700/Unemployment Trust Fund/FY15-16 and Subsequent Years

Other Fiscal Impact – According to the Department of Labor and Workforce Development, this bill may not be enforceable due to a lack of conformity with federal law. If the bill does not conform to federal law, the fiscal impact of the bill is considered not significant. If the bill conforms to federal law, the fiscal impact estimated above applies.

In addition, there could be subsequent increases in state and local government revenue and expenditures due to secondary economic impacts prompted by the passage of this bill. Due to multiple unknown factors, the fiscal impact directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Due to incomplete analysis concerning the businesses that are expected to relocate to Tennessee as a direct result of this bill, this fiscal impact was in error. The original fiscal note did not take into account the additional unemployment premium revenue that the state will realize as a result of these additional businesses relocating to Tennessee. As a result, the fiscal impact of the bill is estimated as follows:

(CORRECTED)
Increase State Revenue – Net Impact -
$45,000/Unemployment Trust Fund/FY14-15
$90,000/Unemployment Trust Fund/FY15-16
$135,000/Unemployment Trust Fund/FY16-17 and Subsequent Years

Forgone State Revenue -
$135,000/Unemployment Trust Fund/FY14-15
$270,000/Unemployment Trust Fund/FY15-16
$405,000/Unemployment Trust Fund/FY16-17 and Subsequent Years

Increase State Expenditures –
$85,800/Unemployment Trust Fund/FY14-15
$58,700/Unemployment Trust Fund/FY15-16 and Subsequent Years

Other Fiscal Impact – According to the Department of Labor and Workforce Development, this bill may not be enforceable due to a lack of conformity with federal law. If the bill does not conform to federal law, the fiscal impact of the bill is considered not significant. If the bill conforms to federal law, the fiscal impact estimated above applies.

In addition, there could be subsequent increases in state and local government revenue and expenditures due to secondary economic impacts prompted by the passage of this bill. Due to multiple unknown factors, the fiscal impact directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Corrected Assumptions:

- Based on information provided by DLWD, this bill may not be enforceable due to lack of conformity with federal law. The following assumptions presume the bill will be enforceable and will conform to federal law.
- The balance of the UITF was approximately $757,263,900 on December 31, 2013.
- DLWD will require one additional position for implementing the provisions of this bill.
- The recurring increase in state expenditures for salary and benefits for the position is estimated to be $57,275. Other recurring expenditures associated with the position are estimated to be $1,440 for phone service and internet. Total recurring expenditures associated with the position are estimated to be $58,715 ($57,275 + $1,440). One-time state expenditures associated with the position are estimated to be $862 for computers and accessories and phone set up.
- Additional one-time state expenditures estimated to be $26,244 for computer and information technology modifications.
- Total one-time state expenditures are estimated to be $27,106 ($862 + $26,244).
- The increase in state expenditures for FY14-15 from the UITF is estimated to be $85,821 ($58,715 + $27,106).
- The recurring increase in state expenditures for FY15-16 and subsequent years from the UITF is estimated to be $58,715.
- DLWD estimates that 10 companies per year with average employment of 100 employees will relocate to Tennessee and benefit from this bill.
- It is assumed that five of the ten will relocate to Tennessee in the absence of the bill, and the remaining five will relocate to Tennessee as a direct result of the bill.
- DLWD indicates that each company will benefit for a period of three years.
- According to DLWD, the minimum premium rate is 2.7 percent applied to the first $9,000 of wages for each employee, and the maximum premium rate is 7.5 percent applied to the first $9,000 of wages for each employee.
- The premium rate that impacted companies would pay under current law and under the provisions of this bill are unknown and dependent upon several unknown factors.
- Based on the information provided by DLWD, companies impacted by the bill are assumed to pay an average premium rate of 7.0 percent under current law; these companies are assumed to pay an average premium rate of 4.0 percent under the provisions of this bill.
- The decrease in state revenue to the UITF in FY14-15 for the five companies that will relocate in the absence of the bill is estimated to be $135,000 [($9,000 x 7.0% x 5 companies x 100 employees) under current law – ($9,000 x 4.0% x 5 companies x 100 employees) under the provisions of the bill].
- Forgone state revenue to the UITF in FY14-15 for the five companies that will relocate as a direct result of the bill is estimated to be $135,000 [($9,000 x 7.0% x 5 companies x 100 employees) under current law – ($9,000 x 4.0% x 5 companies x 100 employees) under the provisions of the bill].

- Companies that relocate only as a result of the bill will pay the reduced premium rate estimated to be four percent, the revenue from which would not be collected under current law. As a result, the increase in state revenue to the UITF in FY14-15 is estimated to be $180,000 ($9,000 x 4.0% x 5 companies x 100 employees).
- The net increase in state revenue to the UITF for FY14-15 is estimated to be $45,000 ($180,000 - $135,000).
- The decrease in state revenue to the UITF in FY15-16 for the companies that will relocate in the absence of the bill is estimated to be $270,000 ($135,000 from FY14-15 + $135,000 in FY15-16).
- Forgone state revenue to the UITF in FY15-16 for the companies that will relocate as a direct result of the bill is estimated to be $270,000 ($135,000 from FY14-15 + $135,000 in FY15-16).
- Companies that relocate only as a result of the bill will pay the reduced premium rate estimated to be four percent, the revenue from which would not be collected under current law. As a result, the increase in state revenue to the UITF in FY15-16 is estimated to be $360,000 [($9,000 x 4.0% x 5 companies x 100 employees) from FY14-15 + ($9,000 x 4.0% x 5 companies x 100 employees) for FY15-16].
- The net increase in state revenue to the UITF for FY15-16 is estimated to be $90,000 ($360,000 - $270,000).
- The recurring decrease in state revenue to the UITF for FY16-17 and subsequent years for the companies that will relocate in the absence of the bill is estimated to be $405,000 ($135,000 from FY14-15 + $135,000 in FY15-16 + $135,000 in FY16-17).
- Forgone state revenue to the UITF for FY16-17 and subsequent years for the companies that will relocate as a direct result of the bill is estimated to be $405,000 ($135,000 from FY14-15 + $135,000 in FY15-16 + $135,000 in FY16-17).
- Companies that relocate only as a result of the bill will pay the reduced premium rate estimated to be four percent, the revenue from which would not be collected under current law. As a result, the increase in state revenue to the UITF in FY16-17 and subsequent years is estimated to be $540,000 [($9,000 x 4.0% x 5 companies x 100 employees) from FY14-15 + ($9,000 x 4.0% x 5 companies x 100 employees) for FY15-16 + ($9,000 x 4.0% x 5 companies x 100 employees) for FY16-17].
- The net increase in state revenue to the UITF for FY16-17 and subsequent years is estimated to be $135,000 ($540,000 - $405,000).
- There could be subsequent increases in state and local government revenue and expenditures due to the secondary economic impacts prompted by the passage of this bill. To the extent passage of the bill incentivizes more out-of-state businesses to relocate in Tennessee, there will be additional state and local government revenue due to increased economic activity. In addition, there could be an increase in state and local government expenditures if the demand for governmental programs and infrastructure increases as a result of an increased population occurring as a result of additional businesses and new economic activity. Due to multiple unknown factors, such as the extent and timing of any business relocations, any population changes, the extent to which economic activity changes, the fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

IMPACT TO COMMERCE:

Commerce Impact - To the extent this bill conforms to federal law, recurring business expenditures for relocating companies will be reduced as a result of lower premium tax rates. Any such recurring reduction in business expenditures would be offset by other one-time increases in business expenditures for the cost of relocating. The net reduction to business expenditures for businesses impacted by the bill is reasonably estimated to exceed $100,000 per year. Any net impact to business revenue cannot be quantified because such impact is dependent upon multiple unknown factors.

Jobs Impact – The net impact to Tennessee jobs is difficult to determine because some companies may relocate to Tennessee in the absence of the bill; while others relocate to Tennessee as a direct result of the bill. The net impact to Tennessee jobs is not quantifiable, but is considered positive.

Assumptions:

- Passage of this bill may incentivize additional out-of-state businesses to relocate to Tennessee as a result of having lower premium rates relative to the premium rates they would pay under current law. Such impact is dependent upon multiple unknown factors, such as the number of businesses that would relocate to Tennessee in the absence of the bill, the number of businesses that relocate to Tennessee as a direct result of the bill, the number of new jobs that would be created in the absence of the bill, the number of new jobs that will be created only as a result of the bill, and the average incomes for the number of new jobs that are created only as a result of the bill, which will be spent in the economy ultimately benefitting other businesses due to the multiplier effect.
- Impacted businesses will benefit as a result of having reduced premium payments. Such reduced business expenditures are estimated to be $270,000 in FY14-15, $540,000 in FY15-16, and $810,000 in FY16-17 and subsequent years. These expenditure reductions will be partially offset by new business expenditures incurred for the cost of relocating to Tennessee. However, it is assumed the impacted businesses would not relocate if the cost of relocating exceeded the expenditure reductions from paying lower premium tax rates. As a result, the net recurring decrease in business expenditures is reasonably estimated to exceed $100,000.
- Any net impact to business revenue, and thus net income for businesses, cannot be determined because such impacts are dependent upon multiple unknown factors such as the product or good offered for sale by the relocating company, the extent of competition that would exist currently from other Tennessee-domiciled businesses, and the extent that a new market entrant would dilute market share for any particular industry.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

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